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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Public Programs Branch

RESOLUTION T-17009
July 20, 2006

R E S O L U T I O N

Resolution T-17009. Verizon California Inc. (U-1002-C). Request to (1) implement a permanent California High Cost Fund-B (CHCF-B) surcredit; and (2) true up of temporary catch-up CHCF-B surcredit in compliance with Decision 98-09-039.

By Advice Letter No. 9908, filed October 29, 2001.

By Advice Letter No. 9928, filed November 29, 2001, and Supplements A and B, filed March 8, 2002 and May 3, 2004, respectively.

SUMMARY

A. Implementation of Permanent CHCF-B Surcredit:

On October 29, 2001, Verizon California Inc.¹ (Verizon) filed Advice Letter (AL) No. 9908 to make its provisional California High Cost Fund-B (CHCF-B) surcredit rate permanent. This resolution approves Verizon's AL No. 9908 to implement a permanent surcredit of 3.38%, commencing on September 1, 2006 and thereafter. This permanent surcredit will apply permanently on all intrastate billings, except for certain services².

In addition to implementing the permanent surcredit of 3.38%, Verizon will also implement an incremental permanent surcredit of 2.66% for one year to true-up the provisional CHCF-B permanent surcredit on all intrastate billings, except for certain

¹ Verizon is formerly the merged GTE California Inc. and Contel Telephone Company.

² Certain services refer to residential basic service, coin-sent paid calling, debit card messages, one-way radio paging, COPT usage, contracts, ULTS access lines, installation, billing, and local calls under ULTS allowance, and directory advertising.

services. In sum, Verizon will implement a total permanent surcredit of 6.04%³ for one year, commencing on September 1, 2006 and ending on the last day of the 12-month period. After the end of the 12-month period, Verizon will continue to implement a permanent surcredit of 3.38% on all intrastate billings, except for certain services.

B. Implementation of Catch-up CHCF-B Surcredit:

On November 29, 2001, Verizon filed AL No. 9928 to true-up its temporary CHCF-B catch-up surcredit for the period July 2001 through September 2001. In AL No. 9928, Verizon proposes to apply a final one-month surcredit of 4.82% to distribute the residual CHCF-B amount not refunded previously due to changes in the company's customer billing base during the surcredit-billing period from July 2001 through September 2001. In AL No. 9928A, filed March 8, 2002, Verizon proposes to revise the one-month catch-up surcredit of 4.82% to 2.52% due to additional surcredit amount owed to interexchange carriers, which was not included in the initial calculation reported to the Commission. Finally, in AL No. 9928B, filed May 3, 2004, Verizon requests to revise the one-month catch-up surcredit of 2.52% to 3.13% as requested by TD staff to account for the interest.

To date, the amount calculated for the one-month catch-up surcredit amount owed to Verizon's customers is 3.75%. This surcredit shall be implemented for one month commencing on September 1, 2006.

BACKGROUND

A. Decision (D.) 96-10-066 –Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643; Investigation on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643 (R.95-01-020, I.95-01-021)

In D.96-10-066, the Commission established the CHCF-B program to provide a universal service subsidy to Verizon and the other incumbent local exchange carriers (ILECs)⁴ for providing basic local telephone service to residential customers in high-cost areas at affordable rates. The purpose of the CHCF-B program is to replace the implicit subsidies used to support universal service with an explicit funding mechanism. The CHCF-B is funded through a surcharge on all end-users of intrastate telecommunications services, except for Universal Lifeline Telephone Service (ULTS)

³ Permanent surcredit of 3.38% + incremental permanent surcredit of 2.66% = 6.04% total surcredit rate.

⁴ The other ILECs are AT&T (formerly Pacific Bell, then SBC), Citizens Telecommunications Company of California dba Frontier Communications of California, and SureWest Telephone Company (formerly Roseville Telephone Company).

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customers, coin-sent paid calling, debit card messages, one-way paging, usage charges to COPTs, customers receiving services under existing contracts that were executed on or before September 15, 1994 and directory advertising. The CHCF-B surcharge has been in place since February 1, 1997.

To avoid double recovery of universal service support by carriers, the Commission, in D.96-10-066, requires Verizon and the other ILECs to reduce all of their rates, except for residential basic service⁵, contracts, and coin-sent paid calls, by an equal percentage reduction (through a monthly surcredit to the customer's bill), in an amount that equals their anticipated monthly CHCF-B draws.

B. D.98-09-039 – Rulemaking on the Commission's Own motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643; Investigation on the Commission's Own motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643 (R.95-01-020, I.95-01-021.)

In September 1998, the Commission issued D.98-09-039 implementing the CHCF-B program established by D.96-10-066. Specifically, the Commission, in this decision, authorized Verizon and the other ILECs⁶, to commence their monthly draws from their accumulated CHCF-B surcharge revenues (CHCF-B draws) commencing December 15, 1998. To offset the CHCF-B draws, the Commission ordered Verizon and the other ILECs to file an AL to implement a permanent surcredit (by an equal percentage of their CHCF-B draws) beginning on December 1, 1998, based on the average of the company's "approved" monthly claims submitted to the CHCF-B fund for the twelve-month period ending July 31, 1998. (*D. 98-09-039, OP 1, p. 82.*) Once the monthly claims, on which the permanent surcredit would be based, were submitted by Verizon and the other ILECs to TD, the CHCF-B Administrative Committee (AC)⁷ was then charged with the duty of reviewing and approving the monthly claims. If material issues arose from the AC's review of the monthly claims, the Commission held that "the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon resolution of these issues." (*Id. at OP 3, p. 82.*)

⁵ Residential basic exchange service is excluded from the rate reduction because the CHCF-B supports this service in high cost areas. The Commission in D.96-10-066 held "If we were to reduce rates for basic service as well, this would widen, rather than narrow, the gap between residential rates and their costs." (*Id. at p. 208.*)

⁶ AT&T, as a result of D.98-07-033, dated September 3, 1998, and subsequently, SureWest Telephone Company, in D.05-08-005, dated August 25, 2005, implemented permanent rate reductions, which allowed the company to true up its rate reduction with its approved fund draws from the CHCF-B program.

⁷ The CHCF-B AC (formerly CHCF-B Trust AC) was previously responsible for reviewing and approving CHCF-B claims by telecommunications carriers, but this function was transferred to the Commission effective October 1, 2001, pursuant to D.01-09-064, dated September 20, 2001, in response to Legislative mandates (SB 669 and SB 742) to transfer surcharge revenues that fund the public purpose programs associated with the advisory board into the State Treasury. The CHCF-B AC currently acts as an advisory board to advise the Commission regarding the development, implementation and administration of the program, pursuant to PU Code Section 276(a).

Lastly, the Commission, in this decision, ordered Verizon and the other ILECs to file an AL to implement a temporary CHCF-B catch-up surcredit over three calendar months in accordance with the instructions issued by the Director of the Telecommunications Division (TD). (*D.98-09-039, OP 20, p. 84.*)

C. Resolution T-16238 – Verizon California Inc. Request to Implement a Permanent California High Cost Fund –B Surcredit in Compliance with Decision 98-09-039. By Advice Letter No. 8838, filed on September 21, 1998, and its Supplements A and B, filed on November 16, 1998 and November 17, 1998, respectively. (Adopted November 19, 1998.)

In compliance with OP No. 1 of D. 98-09-039, Verizon filed AL No. 8838 to implement a surcredit on intrastate billings to customers beginning December 1, 1998. In Resolution T-16238, the Commission approved, on a provisional basis, Verizon's CHCF-B permanent surcredit of 3.16%, which was based on an estimated amount (approximately \$47.7 Million) for the period of August 1997 through July 1998. This permanent surcredit was adopted on a provisional basis because the CHCF-B AC had not formally approved any of these claims filed by Verizon. (*Id. at p. 3.*) The Commission specifically held that "... the implementation of the surcredit filed in Advice Letter 8838 [is] to be on a provisional basis subject to further revision by further Commission action." (*Id.*)

D. Resolution T-16531 – Verizon California Inc.. Inc. Request to Implement a Temporary California High Cost Fund –B Catch-up Surcredit in Compliance with Decision 98-09-039. Advice Letter No. 9743, Filed on April 16, 2001. (Adopted June 14, 2001.)

In Resolution T-16531, the Commission approved Verizon's request to implement a temporary CHCF-B catch-up surcredit rate of 19.3% for 3 months to offset the company's approved claims of \$79.042 million for the time period February 1997 to August 1998. The catch-up surcredit rate of 19.3% applied to all intrastate services, except for certain services for 3 months, from July 1, 2001 through September 30, 2001. This catch-up surcredit was in addition to the 3.16% provisional permanent surcredit that was authorized in Resolution T-16238.

Additionally, the Commission ordered Verizon to do the following:

OP No. 4: Verizon shall track the catch-up surcredit rate reduction by establishing a memorandum account, entitled "Accounts Payable End-User Catch-Up Claim/Surcredit";

OP No. 5: Verizon shall file an AL within 60 days from the end of the catch-up period, no later than November 29, 2001, to true up the catch-up surcredit; and

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OP No. 6: Verizon shall include interest, based upon the average seven-day compound yield on taxable money market funds published in the Wall Street Journal, starting on the first day from the end of the catch-up period, or October 1, 2001, to the day of the start of the actual true up, if any.⁸

OP No. 7: Any adjustments resulting from claims audits of CHCF-B claims from February 1997 through January 2000, including the catch-up period, shall not be recoverable from the ratepayers or the CHCF-B fund.

In accordance with OP Nos. 4 and 5 of Resolution T-16531, Verizon tracked its temporary surcredit for 3 calendar months in a memorandum account, and filed AL No. 9928 on November 29, 2001 to true-up the CHCF-B catch-up surcredit. Subsequently, Verizon filed supplements 9928A and 9928B on March 8, 2002 and May 3, 2004, respectively.

In AL No. 9928, Verizon requests to apply a 4.82% one-month catch-up surcredit to distribute the residual CHCF-B amount not refunded previously. In AL No. 9928A, Verizon amended the 4.82% one-month catch-up surcredit to 2.52% due to additional surcredit owed to interexchange carriers, amounting to \$2,734,436, which was not included in the initial calculation reported to the Commission. The basis of the temporary catch-up surcredit (in AL No. 9743) was \$79.042 million, but fell short by the residual amount of \$3,425,851 including imputed interest. Verizon states that the unrefunded amount was attributed to changes in Verizon's customer base during the three-month surcredit period from July 2001 through September 2001 as compared to the historical period (12 months ending December 31, 2000) used in the initial calculation.

In AL No. 9928B, Verizon requests to implement a final catch-up surcredit for actual claims approved by the CHCF-B AC. The final catch-up surcredit is based on claims approved in Resolution T-16440 for the period ending February 1997 through August 1998, but not refunded during the 3-month catch-up period ending September 30, 2001. Thus, Verizon proposes to provide a one-month final surcredit of 3.13% (instead of 2.52% as proposed in AL No. 9928A) to its customers to refund the unapplied surcredit amount to its customers in the amount of \$3,585,986⁹

⁸ OP No. 6 of Resolution T-16238 was adopted from OP No. 25 of D.98-09-039.

⁹ Unapplied catch-up surcredit of \$3,410,236 plus interest rate of 1.98% derived from 7-day compounded Money Market Fund yield multiplied by the number of months from the end of catch-up period or November 30, 2001 through the ending date of the final true up.

E. October 4, 2001 Director of the Telecommunications Division's Letter to Verizon

On October 4, 2001, the Director of the TD sent a letter to Verizon to notify that the CHCF-B AC had completed its review of Verizon's monthly claims for the period February 1997 through July 1998. Specifically, TD informed Verizon that the CHCF-B AC approved an amount of \$51,078,457 for the 12-month period of August 1997 through July 1998. This amount was approximately \$3,378,457 more than Verizon's claimed amount, which was \$47.7 million for this period.

Because the CHCF-B AC's approved amount was greater than Verizon's claimed amount, TD instructed Verizon to reduce/adjust its provisional permanent rate that was adopted in Resolution T-16238 with the CHCF-B AC's approved amount of \$51,078,456.73. TD instructed Verizon to file an AL no later than October 30, 2001 to reflect this true-up.

In response, Verizon filed AL No. 9908 to increase its provisional surcredit rate of 3.16% to a new permanent surcredit of 3.38% on October 29, 2001.

F. D.02-04-059 – Order Instituting Rulemaking Into Implementation of Senate Bill 669 as it Affects California High Cost Fund B and other public purpose programs (R.01-08-022)

In D.02-04-059, the Commission adopted the 3-month commercial paper rate issued by financial institutions (available at the Federal Reserve Board website) as the uniform interest rate to apply to all late payments for reimbursements and carrier claims, beginning with the payments processed in the first payment cycle, which was May 1, 2002.

G. Audit of Verizon's CHCF-B Claims Pursuant to Public Utilities (PU) Code Section 274

Public Utilities (PU) Code Section 274 requires the Commission to conduct a compliance audit of program-related costs, including CHCF-B claims for all carriers. In compliance with this statute, the Commission retained an auditing firm to conduct an examination of Verizon's claims for the period February 1, 1997 through January 31, 2000 and February 1, 2000 through December 31, 2000 (May 6, 2002 Final Report) and whether Verizon assessed the CHCF-B surcharge and reported the surcharge revenues to the Commission for the period February 1997 through December 31, 1999 (December 2000 Technical Report and Accountant's Letter).

NOTICE/PROTESTS of ALs

The notice of Verizon's AL No. 9908 was published in the Commission Daily Calendar on October 30, 2001. Verizon's AL No. 9928 and its supplements A and B were published in the Commission Daily Calendars on November 30, 2001, March 13, 2002, and May 12, 2004, respectively. Verizon indicated that they mailed a copy of the ALs to adjacent utilities and/or interested parties as requested. No protests have been received.

DISCUSSION**A. Verizon's Request To Make its Provisional Surcredit Permanent**

In compliance with Resolution T-16238, OP No. 1, Verizon filed AL No. 9908, requesting to update its CHCF-B provisional surcredit and to implement a permanent surcredit of 3.38% based on its 1998 billing base and approved amount by the CHCF-B AC. TD concurs with Verizon's proposal and recommends that the Commission adopts the company's permanent surcredit of 3.38%, commencing on September 1, 2006 and thereafter.

B. True up of Verizon's Provisional Permanent Surcredit

In addition to calculating a permanent surcredit rate for Verizon, the Commission proposes to true-up Verizon's provisional permanent surcredit, which has been in effect since December 1, 1998 to the present date. This is essential because the CHCF-B AC's approved amount is greater than Verizon's claimed amount, upon which the provisional permanent surcredit is based on. In D.98-09-039, the Commission held that Verizon's permanent rate must be based on the "actual, approved" claim amount from August 1997 through July 1998. The Commission further held that "if material issues arise from the CHCF-B AC's review of the monthly claims, the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon resolution of these issues.

The CHCF-B AC's approved amount is approximately \$51,078,457 million (or \$4,256,538 per month) whereas Verizon's claimed amount is approximately \$47.7 million for the subject 12-month period. Consequently, the difference between these two amounts is approximately \$3,378,457¹⁰. The Commission specifically held that "if material issues arise from the AC's review of the monthly claims, the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if

¹⁰ The net effect of this difference means that Verizon has been applying a smaller surcredit amount than what it should have applied since December 1, 1998.

necessary, upon resolution of these issues.” (*Id. at COL 3; See also OP 3.*) There is a significant difference between the Committee’s approved amount and Verizon’s claimed amount. Thus, it is necessary to true-up the provisional permanent surcredit. Failure to adjust this difference would result in a significant harm to ratepayers and would also be inconsistent with the Commission decisions on how the CHCF-B funds are to be utilized and calculated.

In D. 98-09-039, the Commission provided authority for the true-up of Verizon’s provisional permanent surcredit. Specifically, in OP 3 of this decision, the Commission ordered as follows:

“The CHCF-B Administrative Committee shall review the CHCF-B claims submitted by Citizens, GTE, Contel and Roseville for the 12-month period ending July 31, 1998 and report its findings to the Director of Telecommunications Division. If material issues arise from the CHCF-B AC’s review of the CHCF-B claims, these companies’ permanent surcredits shall be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon the resolution of these issues.” (OP 3, D. 98-09-039.)

By this ordering paragraph, it is clear that the Commission intended to allow for a true-up to the provisional permanent surcredit to occur if material issues arose from the CHCF-B AC’s review of the CHCF-B claims. There is now before us a material issue that has arisen from the CHCF-B AC’s review of Verizon’s monthly claims.

In Resolution T-16238, the Commission also authorized Verizon to implement a “**provisional**” permanent surcredit beginning in December 1998. The Commission did so because the CHCF-B AC did not have an opportunity to formally approve any of the CHCF-B claims filed by Verizon. The CHCF-B AC has since had an opportunity to review those claims and has provided us with the approved amount, which is significantly higher (rising to the level of materiality) than Verizon’s claimed amount. Thus, in accordance with D.98-09-039, it is necessary for us to make an adjustment to the provisional permanent surcredit.

Since the provisional permanent surcredit has been in effect since December 1, 1998, the difference of \$3,378,457 per year needs to be adjusted from this date to the present date. Additionally, because Verizon has retained \$3,378,457 per year since December 1, 1998 (which should have otherwise accrued interest), it is necessary and appropriate to add interest onto the net difference. Therefore, the Commission recommends that Verizon’s net difference of \$3,378,457 per year for over 7.5 years, plus interest from December 1,

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1998 to the present date, be applied as a surcredit on all of Verizon's intrastate billings, except for certain services, over a one calendar year period.

The exact calculation of the surcredit adjustment is discussed more fully below in the "Surcredit Determination of True up of Provisional Permanent Surcredit" section of this resolution.

Appendix A represents the amount of excessive funds provided to Verizon since December 1, 1998. Column G of Appendix A shows that Verizon excessively accumulated over \$25.9 million over 7 years up to and including the March 2006 claim month. The \$25.9 million represents the difference between the estimated provisional annual permanent surcredit and the actual CHCF-B AC approved permanent surcredit.

C. True-up of Three-Month Temporary Catch-Up Surcredit

In compliance with Resolution T-16531, OP No. 5, Verizon filed AL No. 9928 on November 29, 2001 to true-up the three-month temporary catch-up surcredit relating to CHCF-B to refund a final catch-up surcredit and recommends applying a final one-month surcredit of 4.82%.

In AL No. 9928A, filed March 8, 2002, Verizon proposes to revise the one-month surcredit of 4.82% to 2.52% due to additional surcredit in the amount of \$2,734,436 plus interest owed to interexchange carriers, which were not included in the initial calculation that was reported to the Commission. However, Verizon informed TD that the amount owed to interexchange carriers was later refunded in April 2002. Nevertheless, the remaining unrefunded amount of \$3,425,851 (includes interest for 4 months) owed to all its customers has not been refunded. As a result, the one-month surcredit of 2.52% was further revised to 3.13% in AL No. 9928B (filed May 3, 2004) to account for additional interest from the ending date of the catch-up period or November 30, 2001 through the effective date of this resolution.

Consequently, TD has adjusted the interest and calculated Verizon's one-month catch-up surcredit to be 3.75%, based on the total unrefunded amount of \$3,761,903 (interest included) and the projected net billing base during September 2006. The one-month catch-up surcredit of 3.75% should be implemented and should apply on all intrastate billings, except for certain services, commencing on September 1, 2006 for one month.

D. Surcredit Determination of True up of Provisional Permanent Surcredit

To determine the true-up amount of the incremental CHCF-B permanent surcredit, the \$3,378,457 per year difference between Verizon's estimated CHCF-B claims of \$47.7 million and approved CHCF-B claims of \$51,078,457 by the CHCF-B AC for the period

ending July 1998, is increased to \$30,406,113 for over 7.5 years¹⁰, plus interest of \$3,946,767¹¹, totaling \$34,352,880 for those years. The resulting amount was divided by the actual net billing base for the twelve month period ending December 2005. As a result, TD has calculated the incremental permanent surcredit to be 2.66%. This incremental permanent surcredit will be in addition to the permanent surcredit for a period of one year. Thus, the Commission recommends that Verizon should apply the incremental permanent surcredit for one year, in addition to the permanent surcredit of 3.38%, totaling 6.04% permanent surcredit.

E. Application of Permanent Surcredit

The permanent surcredit of 3.38% and the incremental permanent surcredit of 2.66% resulting from the true up of provisional permanent surcredit, totaling 6.04% permanent surcredit, should apply on all intrastate billings, except for certain services, for one year. The total permanent surcredit of 6.04% should be implemented commencing on September 1, 2006 and ending on the last day of the 12-month period. After the 12-month implementation period of the total permanent surcredit of 6.04%, Verizon should continue to apply the permanent surcredit of 3.38% on all intrastate billings, except for certain services.

F. Recommendations on the Permanent Surcredit and True up of Provisional Permanent Surcredit

With respect to AL No. 9908, the Commission recommends that Verizon do the following: (1) file a supplement to AL No. 9908 within five (5) business days from the effective of this resolution to reflect a permanent surcredit of 3.38% and an incremental permanent surcredit of 2.66% to true up the provisional permanent surcredit, totaling 6.04% permanent surcredit, for one year to apply on all intrastate customers' billings, except for certain services; (2) implement the total permanent surcredit of 6.04% for one year commencing on September 1, 2006 and ending on the last day of the 12-month period; (3) continue to apply the permanent surcredit of 3.38% after the 12-month implementation period of the total permanent surcredit of 6.04%; and (4) provide to the Director of TD for review and approval, within five (5) business days from the effective date of this resolution, a copy of the customer notice that will be in the free-form section of the customer bill, explaining the change in the permanent surcredit and the inclusion of an incremental surcredit for one year.

¹⁰ Total number of years in which the surcredit should have been implemented (December 1, 1998) through the implementation date of this resolution, which is September 1, 2006.

¹¹ Interest was based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday (from December 1, 1998 through April 30, 2002), then on the three-month commercial paper rate issued by financial institutions (available at Federal Reserve Board website) (from May 1, 2002 through September 1, 2006).

G. Recommendation on True up of Catch-Up Surcredit

With respect to AL No. 9928, the Commission recommends that Verizon, within five (5) business days from the effective date of this resolution, (1) file a supplement to AL No. 9928 to reflect a one-month catch-up surcredit of 3.75% to apply to all intrastate billings, except for certain services, to true-up the temporary three-month catch-up surcredit; and (2) provide to the Director of TD for review and approval a copy of the customer notice that will be in the free-from section of the customer bill, explaining the one-month catch-up surcredit of 3.75%. This one-month catch-up surcredit will apply on September 1, 2006 for one month.

H. Adoption of Recommendations

In light of the above discussion, the Commission adopts (1) the permanent surcredit of 3.38% and an incremental permanent surcredit of 2.66% for one year to true up the provisional permanent surcredit in AL No. 9908; and (2) a one-month catch-up surcredit of 3.75% to true up the three-month temporary catch-up surcredit filings in AL No. 9928. The Commission believes that the recommendations, as discussed in this resolution, are appropriate, reasonable, and consistent with prior Commission decisions and resolutions.

COMMENTS

In compliance with PU Code Section 311(g), copies of the Notice of Availability letter of the draft resolution were e-mailed on June 20, 2006 to parties that informed TD of their e-mail address in order to continue to be on the service list of R.95-01-020/I.95-01-021, AT&T, Verizon California Inc., SureWest Telephone Company, Cox California Telecom, LLC, and CHCF-B AC, informing parties that this draft resolution is available for public viewing and comments at the Commission's website at:

<http://www.cpuc.ca.gov/static/documents/index.htm>. In addition, the TD informed these parties of the availability of the conformed resolution at the same website.

Comments filed on a timely basis will be addressed in this Resolution.

Findings

1. Verizon California Inc. (Verizon) filed Advice Letter (AL) No. 9908 to true up its California High Cost Fund-B (CHCF-B) provisional surcredit and implement a permanent CHCF-B surcredit rate.
2. Verizon's CHCF-B approved claims by the CHCF-B Administrative Committee (AC)

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during the twelve-month review period ending July 31, 1998 total \$51,078,457.

3. Verizon under-refunded its interexchange carriers customers in the amount of \$2,734,436, plus interest, during the three-month CHCF-B temporary catch-up period from July 1, 2001 to October 31, 2001. However, Verizon informed TD that the company refunded the amount owed to interexchange carriers in April 2002.
4. Verizon's proposal of a permanent surcredit of 3.38%, based on the 1998 billing base and approved CHCF-B AC claims, is appropriate and reasonable and should be adopted.
5. The interest based on the average seven-day compound yield on taxable money market funds published in the Wall Street Journal each Thursday, per Ordering Paragraph (OP) No. 6 of Resolution T-16531 and OP No. 25 of Decision (D.) 98-09-039, was revised in D.02-04-059, dated April 22, 2002.
6. The Commission, in D.02-04-059, OP No. 7, adopted the three-month commercial paper rate issued by financial institutions (available at Federal Reserve Board website) as the uniform interest rate applicable to late payment of reimbursement and carrier claims, beginning with payments processed in the first payment cycle (which is May 1, 2002).
7. Verizon has been applying a smaller provisional permanent surcredit amount than what should have applied since December 1, 1998.
8. OP No. 3 of D.98-09-039 provides that if material issues arise from the AC's review of the monthly claims, the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon resolution of these issues.
9. There is a significant difference (approximately \$3,378,457 per year for over 7.5 years) between the CHCF-B AC's approved amount and Verizon's estimated claimed amount that was utilized for the provisional permanent surcredit calculation.
10. Verizon has retained the net difference of approximately \$3,378,457 per year for over 7.5 years (which should have accrued interest from December 1, 1998 to the implementation date of this resolution).
11. Verizon's net difference of approximately \$3,378,457 per year for over 7.5 years, plus interest from December 1, 1998 to the implementation date of this resolution, should

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be applied as an incremental surcredit on all Verizon's intrastate billings, except for certain services, over a one calendar year period.

12. Failure to adjust the difference would result in a significant harm to ratepayers and would also be inconsistent with the Commission decisions on how the CHCF-B funds are to be utilized and calculated.
13. Verizon should apply an incremental permanent surcredit of 2.66% for one year to true up the provisional permanent surcredit, in addition to the permanent surcredit of 3.38%, totaling 6.04%.
14. Verizon should true up its CHCF-B provisional permanent surcredit by refunding the difference per year for over 7.5 years, through a surcredit, between the estimated and approved CHCF-B claims during the twelve-month period ending July 1998, plus interest, from December 1, 1998 through the implementation date of the permanent surcredit.
15. Verizon's one month catch-up surcredit is 3.75% based on the total unrefunded amount of \$3,761,903 (interest included) and the projected net billing base during September 2006.
16. Verizon should apply a one-month catch-up surcredit of 3.75% on all intrastate billings, except for certain services, commencing on September 1, 2006 for one month.
17. The incremental permanent surcredit of 2.66% for one year to true up the provisional permanent surcredit was based on the difference between Verizon's estimated CHCF-B claims and approved CHCF-B claim amount for the period ending July 1998, for over 7.5 years plus interest, and the projected net billing base for the twelve-month period ending December 2005.
18. Verizon has accumulated in excess of \$25.9 million over 7 years up to and including March 2006 claim month as illustrated in Column G of Appendix A attached to this resolution.
19. Within five (5) business days from the effective date of this resolution, Verizon should file a supplement to AL No. 9908 to reflect a permanent surcredit of 3.38%, and an incremental permanent surcredit of 2.66%, to true up the provisional permanent surcredit, totaling 6.04% permanent surcredit for one year.

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20. Verizon should implement a total permanent surcredit of 6.04% for one year to apply on all intrastate customers' billings, except for certain services, commencing on September 1, 2006 and ending on the last day of the 12-month period.
21. Verizon should continue to apply the permanent surcredit of 3.38% after the 12-month implementation period of the total permanent surcredit of 6.04%.
22. Within five (5) business days from the effective date of this resolution, Verizon should provide to the Director of the Telecommunications Division for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining the change to the permanent surcredit of 3.38%, the inclusion of an incremental permanent surcredit of 2.66% for one year, and a one-month catch-up surcredit of 3.75%.
23. Within five (5) business days from the resolution effective date, Verizon should file a supplement to AL No. 9928 to true up the three-month temporary catch-up surcredit. The supplement should indicate a one-month catch-up surcredit of 3.75% to be implemented for one month, commencing on September 1, 2006.
24. The one-month catch-up surcredit of 3.75% should apply for one month on all intrastate billings, except for certain services.
25. The recommendations, as stated in this Resolution, are reasonable and should be adopted.

THEREFORE, IT IS ORDERED that:

1. Within five (5) business days from the effective date of this resolution, Verizon California Inc. (Verizon) shall file a supplement to Advice Letter (AL) No. 9908 to reflect a permanent surcredit of 3.38% and an incremental permanent surcredit of 2.66%, totaling 6.04% permanent surcredit for one year, to apply on all intrastate customers' billings, except for certain services (residential basic service, coin-sent paid calling, debit card messages, one-way radio paging, COPT usage, contracts, ULTS access lines, installation, billing, and local calls under ULTS allowance, and directory advertising).
2. Verizon shall implement the total permanent surcredit of 6.04% for one year, commencing on September 1, 2006 and ending on the last day of the 12-month period.

ALTERNATE DRAFT

3. Verizon shall continue to apply the permanent surcredit of 3.38% after the 12-month period implementation of the total permanent surcredit of 6.04%.
4. Within five (5) business days from the effective date of this resolution, Verizon shall file a supplement to AL No. 9928 to reflect a one-month catch-up surcredit of 3.75% to all intrastate billings, except for certain services.
5. Verizon shall implement a one-month catch-up surcredit of 3.75% to true up the three-month temporary catch-up surcredit for one month applicable to all intrastate customers' billings, except for certain services, commencing on September 1, 2006 for one month.
6. Within five (5) business days from the effective date of this resolution, Verizon shall provide to the Director of the Telecommunications Division for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining the change to the CHCF-B permanent surcredit of 3.38%, the inclusion of an incremental permanent surcredit of 2.66% for one year, and a one-month catch-up surcredit for one month of 3.75%.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 20, 2006. The following Commissioners approved it:

STEVE LARSON
Executive Director

APPENDIX A VERIZON'S CLAIM HISTORY SUMMARY							
Time Period	Claims Initially Filed	Revised/Final Claims	Claim Amounts Approved/Paid	Net Approved Claim Amount	Provisional Permanent Surcredit (Test Period)	Actual Permanent Surcredit (Test Period)	Difference between Test Period
	(A)	(B)	(C)	(D)	(E)	(F)	(G) = Col. F - Col. E
08/97-07/98 *		\$ 51,088,746.44	\$ 50,892,860.40		NA	NA	NA
02/97-07/98		\$ 74,697,977.55	\$ 74,505,512.91	\$ 74,497,810.56	NA	NA	NA
08/98-07/99		\$ 56,453,379.70	\$ 55,944,047.24	\$ 55,944,047.24	\$ 47,700,000.00	\$ 51,078,457.00	\$ 3,378,457.00
08/99-07/00	\$ 63,693,845.84	\$ 60,249,836.69	\$ 57,288,923.49	\$ 57,288,923.49	\$ 47,700,000.00	\$ 51,078,457.00	\$ 3,378,457.00
08/00-07/01	\$ 56,461,507.07	\$ 56,461,507.07	\$ 51,780,703.70	\$ 51,780,703.70	\$ 47,700,000.00	\$ 51,078,457.00	\$ 3,378,457.00
8/01-07/02	\$ 53,502,551.08	\$ 53,502,551.08	\$ 52,825,188.20	\$ 52,825,188.20	\$ 47,700,000.00	\$ 51,078,457.00	\$ 3,378,457.00
08/02-07/03	\$ 48,940,571.57	\$ 48,940,571.57	\$ 48,435,178.68	\$ 48,435,178.68	\$ 47,700,000.00	\$ 51,078,457.00	\$ 3,378,457.00
08/03-07/04	\$ 48,283,101.38	\$ 48,283,101.38	\$ 47,793,367.11	\$ 47,793,367.11	\$ 47,700,000.00	\$ 51,078,457.00	\$ 3,378,457.00
08/04-07/05	\$ 46,102,512.18	\$ 46,102,512.18	\$ 43,793,233.62	\$ 43,793,233.62	\$ 47,700,000.00	\$ 51,078,457.00	\$ 3,378,457.00
08/05-03/06	\$ 30,456,877.34	\$ 30,456,877.34	\$ 30,284,195.35	\$ 30,284,195.35	\$ 31,800,000.00	\$ 34,052,304.67	\$ 2,252,304.67
Total	\$ 347,440,966.46	\$ 475,148,314.56	\$ 462,650,350.30	\$ 462,642,647.95	\$ 365,700,000.00	\$ 391,601,503.67	\$ 25,901,503.67
*Revision #1 claims is being used; it was estimated to \$47.7 million for the provisional permanent surcredit							